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Cowperthwait, John  
Howard

Harvest money

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# HARVEST MONEY

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A Plan For Emergency Currency.

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BY

J. HOWARD COWPERTHWAIT,

*Author of Money, Silver and Finance.*

1937

## HARVEST MONEY.

A PLAN FOR EMERGENCY CURRENCY.

EVERY old plan for currency reform must have been antiquated by the panic. Reform is surely in order, but there is ample time for the preparation of a true measure which shall not be based solely upon ante-panic conditions but also upon the panic phenomena and also again upon post-panic conditions. Certainly the time is ripe for education rather than for hasty legislation.

An expert currency commission appointed by the President and non-political in character could utilize the period of dull trade upon which the country has entered. A body of fifty or more persons, selected for their financial knowledge, historical and practical, and holding public meetings, might be able both to enlighten the people and to present, next winter, a measure of currency reform which should command general confidence and legislative approval.

The advocates of a central bank for this country cite its usefulness in European countries, but, it seems to me, avoid consideration of American peculiarities. Nobody in England, France or Germany could reasonably expect that his country's central bank should have its main office outside of London, Paris or Berlin; but our own western and southern Congressmen might reasonably ask how a board of governors, sitting in a bank parlor in New York, could be supposed to understand the causes of any sudden financial trouble in Denver, New Orleans or San Francisco, and, on the other hand, it is hardly likely that the financiers of New York would care to deal with the New York branch-office clerks of a central bank located in Chicago, Washington or anywhere else. The truth is that our country is so vast and has such varied interests that no central bank could be properly located anywhere, for either it must be too far from the geographical centre (Kansas), or too far from the industrial or productive centre, or wholly outside of the financial centre or exactly in the objectionable political centre.

A central bank, too, would have to be somewhat under Government control, and this would inevitably provide obedience to any popular clamor for inflation, and generally, when the certain effect of inflation would be only the postponement of a crisis, to make it the more disastrous, because of the postponement. The governors of the Bank of England (not controlled by the Government) know how and when to prepare for

a drain of its gold, but it does not follow that men who are skillful in American politics would necessarily foresee a financial upheaval, or if they did, would quickly act with the nerve and ability of trained financiers. And if a central bank should be established, it would be destroyed, sooner or later, by Congress, because it could neither supply unlimited means for the West and the South, nor escape the charge of being used principally for Wall Street stock-jobbing. Our producers of cotton, wheat and corn would not relish any withholding from them of advances of cash even if in the judgment of the governors of the central bank, the time had arrived for the marketing of crops in order to make foreign exchange, for the benefit of the whole country. Nor would an apparent necessity for gold importations be a satisfactory reason to holders of stocks and bonds who had been forced to lower their prices by the edict of the central bank. American history does not indicate the advisability of a third great bank experiment; nor do recent exposures in high finance indicate probable safety from scandal, in great concentration of financial power. Central banking does not suit us, however well it may suit people who in many ways are used to being centrally controlled.

Objectionable also is the plan to allow National banks to issue easily additional currency, even subject to Government tax. If there had already been enacted such a law then such money would have come into being a year or more ago, and would have carried industry, extravagance and speculation to a still higher plane only to cause us to fall a greater distance and with more disastrous results. The whole amount of new money, permitted by law, might have been issued prematurely, leaving no authority to issue more when the crisis had actually arrived. Annual crop moving is not to be provided for by new National Bank notes, for when this money should be needed it would be quickly absorbed in great stock market movements.

But while any Government-guaranteed new money must come perilously near inflation, its evil later influence being in inverse proportion to the tax which the Government levies upon it, yet it is nevertheless true that we might devise a Harvest Money which would come into existence, as a rule, in the crop-moving period and would go out of existence after the crops had been marketed, and would also serve as a warning or danger signal whenever its volume was excessive, and particularly whenever such money remained in circulation late in the Winter or into the months of Spring.

Looking to our own experience for guidance rather than to foreign experience under foreign conditions, we note that in an emergency we do actually issue Emergency Money or Clearing House money or scrip or certificates, making necessity our law. Is it not reasonable therefore to suppose that the money which now so suddenly appears and then

disappears might answer its purpose much better if sanctioned by law, care being taken to preserve its peculiar character, to limit its quantity and to insure its issue by the same financiers who now issue it and who have proved their financial wisdom?

To provide for crop moving and incidentally for emergencies, I should recommend the establishment of many banks of issue, redemption and re-discount. The New York banks now in the Clearing House could organize a New York Bank of Banks, the stockholders being only such banks. Similarly there might be organized a Chicago Bank of Banks, a San Francisco Bank of Banks, and other banks of banks, wherever there is a Clearing House association. If Clearing House associations should be superseded by these new banks they might be called clearance banks, as, for instance, The Boston Clearance Bank. The responsibility of a clearance bank should equal the combined responsibility of all of its member banks, but the capital for daily use might be nominal. These great banks could re-discount paper for their own member banks, endorsed by the member and properly secured, the member receiving Harvest Money in exchange. In turn, this money would go out of paying-teller windows as any bank and its own customers might see fit to use it, or as local sentiment might dictate, this again being controlled by the local conditions. This money would have very much greater value than cashier's checks or certificates of deposit, but generally would remain near the point of issue because its value would be unknown elsewhere. In time, however, many clearance banks for their own convenience would take Harvest Money from each other in temporary settlement of domestic exchange. It should be easily distinguished from National Bank notes or any other Government money by being distinctive in color; should be payable on demand and in Government money, and its volume should always be restricted and well known. Judging by the recent evidence of the force of public opinion, we may be sure that Harvest Money of this description would be freely taken and kept afloat in most crop-gathering sections of our country, but only during the time needed for marketing the crop. The moment the crop had been paid for in Government money the force of public opinion would drive this Harvest Money into retirement, for such money would obey the custom which calls Clearing House loan certificates into being and as inevitably provides for their cancellation. Every bank of banks or clearance bank might have always in its vaults its legally authorized amount of Harvest Money, ready for the signatures which should give it value as between such bank of banks and any member bank. Public circulation value would be given by the stamp of the member bank making itself the payer on demand, the bank of banks thus remaining the guarantor as it would be the holder of the security already pledged. When payment actually should be de-

needed of the small bank it ought to have on hand at least as much Government-guaranteed money as it was saved from issuing when it put out the Harvest Money.

In a period of extraordinary activity in trade and speculation, this Harvest Money might remain afloat in some localities after the crop had been paid for, and if so the public attention would be called thereto and there would begin some discrimination against all the instruments of credit emanating from such localities, possibly bringing landboomers or other speculators to a sense of their danger. Or, in a period like the Winter of 1906-07, Harvest Money might remain afloat throughout the West and South and serve as a warning to the whole country that a crisis was approaching. Prudent people would then avoid making new obligations and there would be a general slowing up of industry and speculation, with the good result of mitigating the severity of the crisis or the better result of turning the tide into a slow and steady ebb, bringing no disastrous shock to any but reckless speculators. There always has been and there always will be a flood and an ebb of the tide of industrial activity. We cannot stop it, but we want to know its direction.

Harvest Money ought to earn interest for the issuing bank of banks in order to pay the expenses of the bank, but the rate of interest might be left to suit the locality of the bank, and the rate might be changeable every week upon the amount then outstanding, a sharply advancing rate acting as a wholesome deterrent to speculation. Interest should cease when provision has been made for redemption. As the principally intended use of Harvest Money is to move the crops, such money might be permitted to circulate without taxation during the second half of the year and be taxed at the rate of one per cent. per month in the first half. It should certainly be taxed out of existence every year to make room for its reappearance with the new crop, the object being to overcome the semi-annual disturbance due to the eastward and northeastward flow of money which commences on or about January first and to the westward and southwestward flow which commences in July.

In attempting to provide elasticity for our currency, we should have in view the fact that we ourselves produce 22% of the world's annual supply of gold and also that we can command the prompt flow of an immense quantity of gold, hitherto, by swift steamships, and we should therefore be extraordinarily careful to avoid pernicious inflation. More Government money is certainly undesirable because, even if taxed, it may displace gold either by causing exportation or preventing importation. Government money is good enough to float anywhere in the Union, and therefore too good to simply meet a sudden want.

Under the plan herein suggested, Harvest Money would appear in every normal year in the great harvest sections, and these sections would

have a fair chance to finance their own crops. Harvest Money would appear in New York, Boston, Philadelphia only in years of great financial stringency, and then only for a very short time. The first strain on the circulating medium would be borne by Harvest Money, issued in harvest sections; a severer strain would be met by the drawing of Government money from the financial centres, while a still severer strain would compel the New York Bank of Banks or Clearance Bank to issue Harvest Money, and this would mean the arrival at the danger line in trade and speculation, but with complete publicity in the several steps toward it, covering a period of a year or so, and with the means to prevent the development of a panic. There would have been no premium on currency last Fall, if a great New York Clearance Bank had been in existence and had promptly issued such money as I have described, for retail merchants would have advertised its acceptability and therefore it could have been used freely in pay rolls.

The American people, with unparalleled energy and enterprise and developing a country of unparalleled resources, must, in the future, as in the past, indulge in periods of tremendous industry, extravagance, speculation, over-confidence, which shall prove too swift for safety, and must inevitably pay for these periods by other periods of economy and recuperation. This is the law of our being, and if we ignore it and try to make business good all the time, all that we can accomplish is simply the postponement and the enhancement of disaster. We should seek for a financial method or contrivance which shall not only give us new money in the moment of need, but shall warn us from time to time that the financial situation is already strained, and that some measure of caution and retrenchment is already in order. The writer has no thought of offering a complete treatise on such a deep and intricate subject as the currency. The limitations of this article necessarily, too, preclude such considerations as what Federal and State legislation may be necessary and also preclude consideration of what exact restrictions should be placed upon the volume of Harvest Money. But if such money would certainly and instantly come into being for crop moving or in any emergency, even in the event of an earthquake or conflagration, and if such money would as certainly disappear within a reasonable time, then we have no need for a central bank experiment nor any necessity to depend upon new National Bank notes being available when wanted. True elasticity for our currency may be obtained by such helpful legislation as may be needed to increase the use of the kind of emergency money which has already come naturally into being; and, in time, and by improvements, we may develop a currency system exactly suited to all our wants in every respect.

NEW YORK, December, 1907.

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